

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>		Printed Name		License Number

VILLAGE OF NORTH BRANCH

Lapeer County, Michigan

FINANCIAL STATEMENTS

February 29, 2008

VILLAGE OF NORTH BRANCH

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**BERTHIAUME
& COMPANY**

Certified Public Accountants



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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of North Branch, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of North Branch as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of North Branch's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of North Branch as of February 29, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of North Branch's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Berthiaume & Co.

Saginaw, Michigan
April 18, 2008

BASIC FINANCIAL STATEMENTS

VILLAGE OF NORTH BRANCH

STATEMENT OF NET ASSETS

February 29, 2008

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Assets:				
Cash and cash equivalents	\$ 472,594	\$ 975,875	\$ 1,448,469	\$ 156,477
Receivables	91,161	71,507	162,668	30,135
Restricted cash and cash equivalents	-	28,746	28,746	-
Capital assets:				
Nondepreciable capital assets	66,808	68,783	135,591	17,500
Depreciable capital assets, net	983,521	2,530,925	3,514,446	-
Land held for development - Industrial Park	-	188,330	188,330	-
Total assets	<u>1,614,084</u>	<u>3,864,166</u>	<u>5,478,250</u>	<u>204,112</u>
Liabilities:				
Accounts payable and accrued expenses	9,297	19,651	28,948	-
Long-term liabilities:				
Due within one year	-	70,000	70,000	-
Due in more than one year	<u>8,916</u>	<u>1,344,592</u>	<u>1,353,508</u>	<u>-</u>
Total liabilities	<u>18,213</u>	<u>1,434,243</u>	<u>1,452,456</u>	<u>-</u>
Net assets:				
Invested in capital assets, net of related debt	1,050,329	1,185,116	2,235,445	17,500
Restricted for:				
Debt service	-	28,746	28,746	-
Streets	192,934	-	192,934	-
Unrestricted	<u>352,608</u>	<u>1,216,061</u>	<u>1,568,669</u>	<u>186,612</u>
Total net assets	<u>\$ 1,595,871</u>	<u>\$ 2,429,923</u>	<u>\$ 4,025,794</u>	<u>\$ 204,112</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF NORTH BRANCH

STATEMENT OF ACTIVITIES

Year Ended February 29, 2008

		<i>Program Revenues</i>			<i>Net (Expense) Revenue</i>
		<i>Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Capital Grants and Contributions</i>	
	<i>Expenses</i>				
Functions/Programs					
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 123,547	\$ 23,754	\$ 1,450	\$ -	\$ (98,343)
Public safety	169,666	-	32,759	-	(136,907)
Public works	282,480	79,249	82,040	-	(121,191)
Community and economic development	2,163	1,341	-	-	(822)
Recreation and culture	5,248	3,255	2,072	-	79
Total governmental activities	<u>583,104</u>	<u>107,599</u>	<u>118,321</u>	<u>-</u>	<u>(357,184)</u>
<i>Business-type activities:</i>					
Sewer	100,860	113,001	-	-	12,141
Water	<u>177,172</u>	<u>168,745</u>	<u>53,955</u>	<u>-</u>	<u>45,528</u>
Total business-type activities	<u>278,032</u>	<u>281,746</u>	<u>53,955</u>	<u>-</u>	<u>57,669</u>
Total primary government	<u>\$ 861,136</u>	<u>\$ 389,345</u>	<u>\$ 172,276</u>	<u>\$ -</u>	<u>\$ (299,515)</u>
COMPONENT UNIT:					
Downtown development authority	<u>\$ 76,481</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (76,481)</u>

The accompanying notes are an integral part of these financial statements.

	<i>Primary Government</i>			
	<i>Governmental</i>	<i>Business-</i>		<i>Component</i>
	<i>Activities</i>	<i>type</i>	<i>Total</i>	<i>Unit</i>
		<i>Activities</i>		
<i>Changes in net assets:</i>				
Net (Expense) Revenue	\$ (357,184)	\$ 57,669	\$ (299,515)	\$ (76,481)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	184,538	-	184,538	-
Property taxes, levied for municipal streets	73,353	-	73,353	-
Property taxes, captured by DDA	-	-	-	110,269
Franchise fees	10,125	-	10,125	-
Grants and contributions not restricted to specific programs	105,854	-	105,854	-
Unrestricted investment earnings	37,417	46,227	83,644	4,166
Total general revenues	411,287	46,227	457,514	114,435
Change in net assets	54,103	103,896	157,999	37,954
Net assets, beginning of year	1,541,768	2,326,027	3,867,795	166,158
Net assets, end of year	\$ 1,595,871	\$ 2,429,923	\$ 4,025,794	\$ 204,112

VILLAGE OF NORTH BRANCH

GOVERNMENTAL FUNDS

BALANCE SHEET

February 29, 2008

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Municipal Street Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
Assets:						
Cash and cash equivalents	\$ 253,922	\$ 63,325	\$ 1,065	\$ 115,405	\$ 38,877	\$ 472,594
Taxes receivable	25	-	-	-	-	25
Accounts receivable	29,757	-	-	-	14,838	44,595
Accrued interest receivable	718	-	-	-	47	765
Due from other governmental units	32,637	9,845	3,294	-	-	45,776
Due from other funds	-	-	-	48	-	48
Total assets	<u>\$ 317,059</u>	<u>\$ 73,170</u>	<u>\$ 4,359</u>	<u>\$ 115,453</u>	<u>\$ 53,762</u>	<u>\$ 563,803</u>
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable	\$ 9,297	\$ -	\$ -	\$ -	\$ -	\$ 9,297
Due to other funds	-	48	-	-	-	48
Total liabilities	<u>9,297</u>	<u>48</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,345</u>
Fund balances:						
Unreserved:						
General fund	307,762	-	-	-	-	307,762
Special revenue funds	-	73,122	4,359	115,453	53,762	246,696
Total fund balances	<u>307,762</u>	<u>73,122</u>	<u>4,359</u>	<u>115,453</u>	<u>53,762</u>	<u>554,458</u>
Total liabilities and fund balances	<u>\$ 317,059</u>	<u>\$ 73,170</u>	<u>\$ 4,359</u>	<u>\$ 115,453</u>	<u>\$ 53,762</u>	<u>\$ 563,803</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF NORTH BRANCH

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

February 29, 2008

Total fund balances for governmental funds		\$ 554,458
Total net assets reported for governmental activities in the statement of of net assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	1,487,375	
Less accumulated depreciation	<u>(437,046)</u>	1,050,329
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:		
Compensated absences payable		<u>(8,916)</u>
Net assets of governmental activities		<u><u>\$ 1,595,871</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF NORTH BRANCH

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 29, 2008

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Municipal Street Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
Revenues:						
Property taxes	\$ 184,538	\$ -	\$ -	\$ 73,353	\$ -	\$ 257,891
Licenses and permits	10,155	-	-	-	-	10,155
State grants	109,612	60,339	21,701	-	-	191,652
Contributions from other units	29,001	-	-	-	2,000	31,001
Charges for services	64,887	-	-	-	61,302	126,189
Fines and forfeits	1,856	-	-	-	-	1,856
Interest and rents	14,371	5,283	3,539	12,769	1,455	37,417
Other revenue	19,075	-	250	3,000	77	22,402
Total revenues	<u>433,495</u>	<u>65,622</u>	<u>25,490</u>	<u>89,122</u>	<u>64,834</u>	<u>678,563</u>
Expenditures:						
Current						
General government	110,989	-	-	-	-	110,989
Public safety	161,325	-	-	-	-	161,325
Public works	137,304	42,211	15,654	10,720	55,378	261,267
Community and economic development	2,163	-	-	-	-	2,163
Recreation and culture	2,920	-	-	-	928	3,848
Other	25,376	-	-	-	-	25,376
Capital outlay	2,635	164,833	277,441	1,026	-	445,935
Total expenditures	<u>442,712</u>	<u>207,044</u>	<u>293,095</u>	<u>11,746</u>	<u>56,306</u>	<u>1,010,903</u>
Excess (deficiency) of revenues over expenditures	<u>(9,217)</u>	<u>(141,422)</u>	<u>(267,605)</u>	<u>77,376</u>	<u>8,528</u>	<u>(332,340)</u>
Other financing sources (uses):						
Transfers from other funds	-	45,000	180,094	-	322	225,416
Transfers to other funds	<u>(322)</u>	<u>-</u>	<u>-</u>	<u>(225,094)</u>	<u>-</u>	<u>(225,416)</u>
Total other financing sources (uses)	<u>(322)</u>	<u>45,000</u>	<u>180,094</u>	<u>(225,094)</u>	<u>322</u>	<u>-</u>
Net change in fund balances	(9,539)	(96,422)	(87,511)	(147,718)	8,850	(332,340)
Fund balances, beginning of year	<u>317,301</u>	<u>169,544</u>	<u>91,870</u>	<u>263,171</u>	<u>44,912</u>	<u>886,798</u>
Fund balances, end of year	<u>\$ 307,762</u>	<u>\$ 73,122</u>	<u>\$ 4,359</u>	<u>\$ 115,453</u>	<u>\$ 53,762</u>	<u>\$ 554,458</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF NORTH BRANCH

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 29, 2008

Net change in fund balances - total governmental funds \$ (332,340)

Total change in net assets reported for governmental activities in the statement
of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is depreciated over their
estimated useful lives and reported as depreciation expense.

Capital outlay	442,274	
Less depreciation expense	<u>(51,032)</u>	391,242

Some expenses reported in the statement of activities do not require the use
of current financial resources and therefore are not reported as expenditures
in governmental funds.

Change in compensated absences payable	<u>(4,799)</u>
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Change in net assets of governmental activities \$ 54,103

The accompanying notes are an integral part of these financial statements.

VILLAGE OF NORTH BRANCH

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

February 29, 2008

	<i>Business-type Activities</i>		
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total Enterprise Funds</i>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 185,751	\$ 790,124	\$ 975,875
Accounts receivable	30,635	37,274	67,909
Accrued interest receivable	418	3,180	3,598
Total current assets	216,804	830,578	1,047,382
Noncurrent assets:			
Restricted cash and cash equivalents	-	28,746	28,746
Capital assets:			
Nondepreciable capital assets	7,200	61,583	68,783
Depreciable capital assets, net	438,970	2,091,955	2,530,925
Land held for development - Industrial Park	-	188,330	188,330
Total noncurrent assets	446,170	2,370,614	2,816,784
Total assets	662,974	3,201,192	3,864,166
Liabilities:			
Current liabilities:			
Accounts payable	-	587	587
Accrued interest payable	-	19,064	19,064
Current portion of long-term debt	-	70,000	70,000
Total current liabilities	-	89,651	89,651
Noncurrent liabilities:			
Long-term debt	-	1,344,592	1,344,592
Total noncurrent liabilities	-	1,344,592	1,344,592
Total liabilities	-	1,434,243	1,434,243
Net assets:			
Invested in capital assets, net of related debt	446,170	738,946	1,185,116
Restricted for:			
Debt service	-	28,746	28,746
Unrestricted	216,804	999,257	1,216,061
Total net assets	\$ 662,974	\$ 1,766,949	\$ 2,429,923

The accompanying notes are an integral part of these financial statements.

VILLAGE OF NORTH BRANCH

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended February 29, 2008

	<i>Business-type Activities</i>		
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total Enterprise Funds</i>
Operating revenues:			
Charges for services	\$ 108,844	\$ 151,037	\$ 259,881
Penalties	4,157	5,534	9,691
Other	-	12,174	12,174
Total operating revenues	113,001	168,745	281,746
Operating expenses:			
Personnel	24,678	21,137	45,815
Fringe benefits	11,226	10,211	21,437
Supplies	10,093	9,149	19,242
Contracted services	5,540	6,899	12,439
Administrative expense	4,300	6,200	10,500
Registration/dues/training	138	1,307	1,445
Insurance	225	700	925
Utilities	2,358	10,300	12,658
Repairs and maintenance	11,207	1,505	12,712
Equipment rental	8,742	9,017	17,759
Other services and supplies	98	148	246
Depreciation	22,255	47,447	69,702
Total operating expenses	100,860	124,020	224,880
Operating income (loss)	12,141	44,725	56,866
Non-operating revenues (expenses):			
Interest income	7,991	38,236	46,227
Interest expense	-	(53,152)	(53,152)
Contribution from Downtown Development Authority	-	53,955	53,955
Net non-operating revenues	7,991	39,039	47,030
Net income (loss)	20,132	83,764	103,896
Net assets, beginning of year	642,842	1,683,185	2,326,027
Net assets, end of year	\$ 662,974	\$ 1,766,949	\$ 2,429,923

The accompanying notes are an integral part of these financial statements.

VILLAGE OF NORTH BRANCH

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended February 29, 2008

	<i>Business-type Activities</i>		
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total Enterprise Funds</i>
Cash flows from operating activities:			
Cash received from customers	\$ 113,293	\$ 169,402	\$ 282,695
Cash payments to employees	(24,678)	(21,137)	(45,815)
Cash payments to suppliers for goods and services	(54,587)	(58,236)	(112,823)
Net cash provided by operating activities	34,028	90,029	124,057
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	-	(107,519)	(107,519)
Sale of assets	-	60,000	60,000
Principal payments	-	(70,000)	(70,000)
Interest paid	-	(53,152)	(53,152)
Contribution from Downtown Development Authority	-	53,955	53,955
Net cash used by capital and related financing activities	-	(116,716)	(116,716)
Cash flows from investing activities:			
Interest received	7,991	38,236	46,227
Net cash provided by investing activities	7,991	38,236	46,227
Net increase in cash and cash equivalents	42,019	11,549	53,568
Cash and cash equivalents, beginning of year	143,732	807,321	951,053
Cash and cash equivalents, end of year	\$ 185,751	\$ 818,870	\$ 1,004,621
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 12,141	\$ 44,725	\$ 56,866
Adjustments:			
Depreciation	22,255	47,447	69,702
Change in assets and liabilities:			
Accounts receivable	710	3,837	4,547
Accrued interest receivable	(418)	(3,180)	(3,598)
Accounts payable	(660)	(1,882)	(2,542)
Accrued interest payable	-	(918)	(918)
Net cash provided by operating activities	\$ 34,028	\$ 90,029	\$ 124,057

The accompanying notes are an integral part of these financial statements.

VILLAGE OF NORTH BRANCH

FIDUCIARY FUND

STATEMENT OF NET ASSETS

February 29, 2008

	<u><i>Agency Fund</i></u>
Assets:	
Cash and cash equivalents	<u>\$ 29,622</u>
Total assets	<u>29,622</u>
Liabilities:	
Accounts payable	<u>29,622</u>
Total liabilities	<u>29,622</u>
Net Assets:	
Unrestricted	<u>-</u>
Total net assets	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF NORTH BRANCH

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of North Branch conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village and its component unit. In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component unit discussed below is included in the Village's reporting entity because of its operational or financial relationship with the Village.

Discretely Presented Component Unit - The component unit column in the government-wide financial statements includes the financial data of the Village's component unit. This unit is reported in a separate column to emphasize that it is legally separate from the Village. The component unit is described as follows:

Downtown Development Authority - The members of the governing board of the Downtown Development Authority (DDA) are appointed by the Village Council. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Downtown Development Authority. Complete separate financial statements of the Downtown Development Authority are not prepared.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

VILLAGE OF NORTH BRANCH

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village’s net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the Village’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Village does not allocate indirect costs. In creating the government-wide financial statements the Village has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Village as an entity and the change in the Village’s net assets resulting from current year activities.

Fund Financial Statements:

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

VILLAGE OF NORTH BRANCH

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The Village reports the following major governmental funds:

The **General Fund** is the primary operating fund of the Village. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The **Major Street Fund** is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for maintenance and construction of roads designated as major streets in the Village.

The **Local Street Fund** is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for maintenance and construction of roads designated as local streets in the Village.

The **Municipal Street Fund** is used to account for the revenues received from a property tax levy for street improvements.

The Village reports the following major enterprise funds:

The **Sewer Fund** is used to account for the revenues and expenses for the operation of a sewer system.

The **Water Fund** is used to account for the revenues and expenses for the operation of a water system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

VILLAGE OF NORTH BRANCH

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

Assets, Liabilities and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments, if any, are stated at fair value. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less to be cash equivalents.

Interfund Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Village defines capital assets as assets with an initial individual cost in excess of \$1,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after March 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Land improvements	15 years
Machinery and equipment	5-30 years
Vehicles	8 years
Distribution systems	25-50 years
Infrastructure	25 years

Compensated Absences – It is the Village’s policy to permit employees to accumulate earned but unused sick days once they have attained ten years of service. Employees who terminate employment with the Village and have at least ten years of service will receive a payout of ½ the amount of unused sick days at the time of termination. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual’s employment has terminated as of year end.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

VILLAGE OF NORTH BRANCH

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Property Taxes:

Village property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 14.

The 2007 taxable valuation of the Village totaled \$21,848,480, on which ad valorem taxes levied consisted of 10.4632 mills for the Village’s operating purposes and 4.1851 mills for municipal streets.

The delinquent real property taxes of the Village are purchased by Lapeer County. The delinquent real property taxes are received soon enough after year end to be recorded as revenue in the current year.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Village Clerk submits to the Village Council a proposed operating budget by fund for each year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to March 1, the budget is legally enacted by adoption of the Village Council.
4. Any revision that alters the total expenditures of any fund must be approved by the Village Council.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund budget as originally adopted and amended by the Village Council is included in the required supplemental information.
7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the Village incurred expenditures in excess of the amounts budgeted, as follows:

VILLAGE OF NORTH BRANCH

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

	<i><u>Final Budgeted Expenditures</u></i>	<i><u>Actual Expenditures</u></i>	<i><u>Actual over Final Budget</u></i>
General Fund			
Current			
Public works	\$ 129,234	\$ 137,304	\$ 8,070
Other	24,071	25,376	1,305
Major Street Fund			
Current			
Public works	33,673	42,211	8,538
Local Street Fund			
Capital outlay	245,206	277,441	32,235
Municipal Street Fund			
Transfers to other funds	219,000	225,094	6,094

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. The Village does not have a deposit policy for custodial credit risk. At year-end, the Village had \$1,673,943 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits.

At year end, the Village had no investments.

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

Water Fund Reserves:

The Village's ordinances authorizing issuance of the 2002 Water Supply System Revenue Bonds require that specific accounts be established and monies deposited as follows:

VILLAGE OF NORTH BRANCH

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

Receiving Account – All water receipts are initially deposited into this account.

Operation and Maintenance Account – Periodic transfers are to be made to cover upcoming administrative, operating, and maintenance expenses.

Bond and Interest Redemption Account – Monthly transfers are to be made equal to one sixth (1/6) of the next interest payment due plus one twelfth (1/12) of the next principal payment due.

At February 29, 2008 the Village had these accounts established and had restricted cash as follows:

	<u>Requirements</u>		<u>Funded</u>
	<u>March 1,</u>		<u>Restricted</u>
	<u>2007</u>	<u>Deductions</u>	<u>Cash and</u>
			<u>Cash</u>
			<u>Equivalents</u>
Water Fund:			
Bond and Interest Redemption	\$ 29,214	\$ (468)	\$ 28,746

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended February 29, 2008 was as follows:

	<u>March 1,</u>			<u>February 29,</u>
	<u>2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>2008</u>
Governmental activities:				
<i>Nondepreciable capital assets:</i>				
Land	\$ 66,808	\$ -	\$ -	\$ 66,808
<i>Depreciable capital assets:</i>				
Buildings and improvements	137,235	-	-	137,235
Machinery and equipment	606,741	-	-	606,741
Vehicles	93,401	-	-	93,401
Infrastructure	140,916	442,274	-	583,190
Total depreciable capital assets	978,293	442,274	-	1,420,567
Accumulated depreciation	(386,014)	(51,032)	-	(437,046)
Depreciable capital assets, net	592,279	391,242	-	983,521
Governmental activities, capital assets, net	\$ 659,087	\$ 391,242	\$ -	\$ 1,050,329

VILLAGE OF NORTH BRANCH

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

	<u>March 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>February 29, 2008</u>
Business-type activities:				
<i>Nondepreciable capital assets:</i>				
Land	\$ 68,783	\$ -	\$ -	\$ 68,783
<i>Depreciable capital assets:</i>				
Land improvements	12,753	-	-	12,753
Machinery and equipment	66,607	-	-	66,607
Sewer system	777,685	-	-	777,685
Water system	2,330,089	107,519	-	2,437,608
Total depreciable capital assets	3,187,134	107,519	-	3,294,653
Accumulated depreciation	(694,026)	(69,702)	-	(763,728)
Depreciable capital assets, net	2,493,108	37,817	-	2,530,925
Business-type activities, capital assets, net	<u>\$ 2,561,891</u>	<u>\$ 37,817</u>	<u>\$ -</u>	<u>\$ 2,599,708</u>
Component unit - DDA:				
<i>Nondepreciable capital assets:</i>				
Land	<u>\$ 17,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,500</u>

Depreciation expense was charged to functions as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
General government	\$ 1,333	\$ -
Public safety	6,120	-
Public works	42,179	-
Recreation and culture	1,400	-
Sewer	-	22,225
Water	-	47,477
Total depreciation expense	<u>\$ 51,032</u>	<u>\$ 69,702</u>

NOTE 6: LAND HELD FOR DEVELOPMENT – INDUSTRIAL PARK

The account shown in the Water Fund with a balance of \$188,330 represents the Water Fund's balance of costs invested in improvements to a Village Industrial Park. These improvements are not being depreciated because the lots are being held for sale.

Proceeds from the sale of lots were \$60,000 for the year ended February 29, 2008.

VILLAGE OF NORTH BRANCH

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

NOTE 7: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of the current fiscal year, the Village had no deferred revenue.

NOTE 8: LONG-TERM LIABILITIES

The Village may issue bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term liabilities include compensated absences.

Long-term liabilities at February 29, 2008 consisted of the following:

<u>Types of Indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at Year-End</u>
<u>Business-type Activities:</u>					
1995 Issue - Lapeer County Water System General Obligation Bonds	11/1/07-11/1/19	5.3-6.1%	\$25,000-50,000	\$ 660,000	\$ 455,000
2002 Issue - Water System Revenue Bonds	10/1/07-10/1/23	2.5%	45,000-74,592	1,144,592	959,592

The following is a summary of long-term liabilities transactions for the year ended February 29, 2008:

	<u>March 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>February 29, 2008</u>	<u>Due Within One Year</u>
Governmental activities:					
Compensated Absences	\$ 4,117	\$ 4,799	\$ -	\$ 8,916	\$ -
Total governmental activities					
- long-term liabilities	<u>\$ 4,117</u>	<u>\$ 4,799</u>	<u>\$ -</u>	<u>\$ 8,916</u>	<u>\$ -</u>
Business-type activities:					
<i>General Obligation Bonds:</i>					
1995 Issue	\$ 480,000	\$ -	\$ (25,000)	\$ 455,000	\$ 25,000
<i>Revenue Bonds:</i>					
2002 Issue	<u>1,004,592</u>	<u>-</u>	<u>(45,000)</u>	<u>959,592</u>	<u>45,000</u>
Total business-type activities					
- long-term liabilities	<u>\$ 1,484,592</u>	<u>\$ -</u>	<u>\$ (70,000)</u>	<u>\$ 1,414,592</u>	<u>\$ 70,000</u>

VILLAGE OF NORTH BRANCH

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

Annual debt service requirements to maturity for the above bond obligations are as follows:

<i>Year Ended</i> <i>February 29,</i>	<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2009	\$ 70,000	\$ 51,195	\$ 121,195
2010	75,000	48,682	121,195
2011	80,000	46,006	123,682
2012	85,000	43,016	126,006
2013	90,000	39,702	128,016
2014-2018	505,000	142,977	647,977
2019-2023	435,000	43,972	478,972
2024	74,592	1,864	76,456
	<u>\$ 1,414,592</u>	<u>\$ 417,414</u>	<u>\$ 1,832,006</u>

NOTE 9: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the Village, in the aggregate, are as follows:

	<i>Governmental</i> <i>Activities</i>	<i>Business-type</i> <i>Activities</i>	<i>Component</i> <i>Unit</i>
Receivables:			
Property taxes	\$ 25	\$ -	\$ 30,135
Accounts	44,595	67,909	-
Accrued interest	765	3,598	-
Intergovernmental	45,776	-	-
Total receivables	<u>\$ 91,161</u>	<u>\$ 71,507</u>	<u>\$ 30,135</u>
Accounts payable and accrued expenses:			
Accounts	\$ 9,297	\$ 587	\$ -
Accrued interest	-	19,064	-
Total accounts payable and accrued expenses	<u>\$ 9,297</u>	<u>\$ 19,651</u>	<u>\$ -</u>

NOTE 10: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at February 29, 2008 is as follows:

<i>Receivable Fund</i>	<i>Payable Fund</i>	<i>Amount</i>
Municipal Street Fund	Major Street Fund	<u>\$ 48</u>

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

VILLAGE OF NORTH BRANCH

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

Interfund transfers reported in the fund statements were as follows:

<u><i>Funds Transferred From</i></u>	<u><i>Funds Transferred To</i></u>	<u><i>Amount</i></u>
General Fund	Museum Fund	\$ 322
Municipal Street Fund	Major Street Fund	45,000
Municipal Street Fund	Local Street Fund	<u>180,094</u>
	Total	<u>\$ 225,416</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 11: RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation).

The Village participates in the Michigan Municipal Liability and Property Pool (the "Pool") for workers' compensation and property risk. The Pool is a public entity risk pool providing property and liability coverage to its participating members. The Village pays an annual premium for its insurance coverage. The Pool is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies.

Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded the amount of insurance coverage in the past three fiscal years.

NOTE 12: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Contribution Pension Plan

The Village has a defined contribution pension plan administered by ICMA Retirement Corporation. All full-time employees as well as the Clerk and Treasurer are covered under the plan. The Village contributes 7% of each covered employee's earnings to the plan. The Village's contribution for the year ended February 29, 2008 was \$18,916, which was entirely paid during the year.

Post Employment Benefits:

The Village currently does not provide post employment benefits.

VILLAGE OF NORTH BRANCH

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

Deferred Compensation Plan:

The Village offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years.

The Village adopted GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The Village has placed all Deferred Compensation Plan assets with a trustee, relinquishing all fiduciary accountability for the assets. Accordingly, the related assets and liabilities of the plan are not reported in the Village's financial statements.

NOTE 13: CONTRACT WITH DDA FOR WATER BOND PAYMENTS

The Village and the Village DDA entered into an agreement March 20, 2003 that states that the DDA shall pay to, or reimburse, the Village each year for payments the Village makes to the County on the 1995 Water Revenue Bonds. In accordance with the agreement, for the year ended February 29, 2008, the DDA paid \$53,955 to the Village Water Fund.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF NORTH BRANCH

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	<i>Budgeted Amounts</i>			<i>Actual Over (Under)</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Final Budget</i>
Revenues:				
Property taxes	\$ 164,000	\$ 169,358	\$ 184,538	\$ 15,180
Licenses and permits	-	5,800	10,155	4,355
State grants	113,900	113,900	109,612	(4,288)
Contributions from other units	25,000	25,000	29,001	4,001
Charges for services	57,000	58,902	64,887	5,985
Fines and forfeits	500	500	1,856	1,356
Interest and rents	6,000	10,000	14,371	4,371
Other revenue	2,000	2,790	19,075	16,285
Total revenues	368,400	386,250	433,495	47,245
Expenditures:				
Current				
General government	120,251	122,281	110,989	(11,292)
Public safety	179,085	181,700	161,325	(20,375)
Public works	116,010	129,234	137,304	8,070
Community and economic development	2,995	3,270	2,163	(1,107)
Recreation and culture	5,150	5,150	2,920	(2,230)
Other	23,000	24,071	25,376	1,305
Capital outlay	15,000	13,635	2,635	(11,000)
Total expenditures	461,491	479,341	442,712	(36,629)
Excess (deficiency) of revenues over expenditures	(93,091)	(93,091)	(9,217)	83,874
Other financing sources (uses):				
Transfers to other funds	(500)	(500)	(322)	178
Total other financing sources (uses)	(500)	(500)	(322)	178
Net change in fund balance	(93,591)	(93,591)	(9,539)	84,052
Fund balance, beginning of year	317,301	317,301	317,301	-
Fund balance, end of year	\$ 223,710	\$ 223,710	\$ 307,762	\$ 84,052

VILLAGE OF NORTH BRANCH

MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	<i><u>Budgeted Amounts</u></i>			<i><u>Actual</u></i>
	<i><u>Original</u></i>	<i><u>Final</u></i>	<i><u>Actual</u></i>	<i><u>Over (Under)</u></i>
				<i><u>Final Budget</u></i>
Revenues:				
State grants	\$ 48,000	\$ 60,000	\$ 60,339	\$ 339
Interest and rents	1,000	1,000	5,283	4,283
Total revenues	<u>49,000</u>	<u>61,000</u>	<u>65,622</u>	<u>4,622</u>
Expenditures:				
Current				
Public works	29,233	33,673	42,211	8,538
Capital outlay	<u>240,865</u>	<u>236,425</u>	<u>164,833</u>	<u>(71,592)</u>
Total expenditures	<u>270,098</u>	<u>270,098</u>	<u>207,044</u>	<u>(63,054)</u>
Excess (deficiency) of revenues over expenditures	<u>(221,098)</u>	<u>(209,098)</u>	<u>(141,422)</u>	<u>67,676</u>
Other financing sources (uses):				
Transfers from other funds	<u>155,123</u>	<u>45,000</u>	<u>45,000</u>	<u>-</u>
Total other financing sources (uses)	<u>155,123</u>	<u>45,000</u>	<u>45,000</u>	<u>-</u>
Net change in fund balance	(65,975)	(164,098)	(96,422)	67,676
Fund balance, beginning of year	<u>169,544</u>	<u>169,544</u>	<u>169,544</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 103,569</u></u>	<u><u>\$ 5,446</u></u>	<u><u>\$ 73,122</u></u>	<u><u>\$ 67,676</u></u>

VILLAGE OF NORTH BRANCH

LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	<i>Budgeted Amounts</i>			<i>Actual Over (Under) Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues:				
State grants	\$ 16,000	\$ 16,000	\$ 21,701	\$ 5,701
Interest and rents	1,435	1,435	3,539	2,104
Other revenue	-	-	250	250
Total revenues	17,435	17,435	25,490	8,055
Expenditures:				
Current				
Public works	13,230	16,310	15,654	(656)
Capital outlay	110,885	245,206	277,441	32,235
Total expenditures	124,115	261,516	293,095	31,579
Excess (deficiency) of revenues over expenditures	(106,680)	(244,081)	(267,605)	(23,524)
Other financing sources (uses):				
Transfers from other funds	45,000	174,000	180,094	6,094
Total other financing sources (uses)	45,000	174,000	180,094	6,094
Net change in fund balance	(61,680)	(70,081)	(87,511)	(29,618)
Fund balance, beginning of year	91,870	91,870	91,870	-
Fund balance, end of year	\$ 30,190	\$ 21,789	\$ 4,359	\$ (29,618)

VILLAGE OF NORTH BRANCH

MUNICIPAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	<i>Budgeted Amounts</i>			<i>Actual Over (Under) Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues:				
Property taxes	\$ 59,032	\$ 59,032	\$ 73,353	\$ 14,321
Interest and rents	3,000	3,000	12,769	9,769
Other revenue	-	-	3,000	3,000
Total revenues	62,032	62,032	89,122	27,090
Expenditures:				
Current				
Public works	13,283	13,283	10,720	(2,563)
Capital outlay	11,300	11,300	1,026	(10,274)
Total expenditures	24,583	24,583	11,746	(12,837)
Excess (deficiency) of revenues over expenditures	37,449	37,449	77,376	39,927
Other financing sources (uses):				
Transfers to other funds	(200,123)	(219,000)	(225,094)	6,094
Total other financing sources (uses)	(200,123)	(219,000)	(225,094)	6,094
Net change in fund balance	(162,674)	(181,551)	(147,718)	33,833
Fund balance, beginning of year	263,171	263,171	263,171	-
Fund balance, end of year	\$ 100,497	\$ 81,620	\$ 115,453	\$ 33,833

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF NORTH BRANCH

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended February 29, 2008

Revenues:

Current Taxes:

Property taxes	\$ 183,393
Trailer tax	549
Fees, penalties and interest on taxes	596
	<u>184,538</u>

Licenses and permits:

Business licenses and permits	30
CATV franchise fees	10,125
	<u>10,155</u>

State Grants:

Liquor license fees	1,004
State revenue sharing - sales tax	105,854
Police	2,754
	<u>109,612</u>

Contribution from other units:

Reimbursement from school district - Cops in schools	<u>29,001</u>
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Charges for services:

Appeals fees	1,341
Other	137
Charges to other funds	63,409
	<u>64,887</u>

Fines and forfeits:

Other	<u>1,856</u>
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Interest and rents:

Interest	<u>14,371</u>
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Other Revenue:

Contributions and donations	1,450
Reimbursements	6,394
Other	11,231
	<u>19,075</u>

Total revenues	<u><u>\$ 433,495</u></u>
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VILLAGE OF NORTH BRANCH

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended February 29, 2008

Expenditures:

General Government:

Council:

Personnel	\$ 5,340
Fringe benefits	459
Supplies	159
Contracted services	7,500
Registration/dues/training	93
Printing and publications	758
Insurance	140
Other	1,653
	<u>16,102</u>

President:

Personnel	4,759
Fringe benefits	364
	<u>5,123</u>

Clerk:

Personnel	31,462
Fringe benefits	4,601
Supplies	1,814
Telephone	2,332
Transportation	178
Registration/dues/training	939
Insurance	10
Repairs and maintenance	1,718
Other	3,501
	<u>46,555</u>

Audit:

Contracted services	<u>4,690</u>
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Treasurer:

Personnel	10,125
Fringe benefits	1,479
Supplies	500
Transportation	107
Registration/dues/training	775
Printing and publications	216
Repairs and maintenance	67
Other	85
	<u>13,354</u>

Elections:

Personnel	535
Fringe benefits	26
Supplies	1,089
Transportation	20
Printing and publications	93
Other	19
	<u>1,782</u>

VILLAGE OF NORTH BRANCH

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended February 29, 2008

Expenditures, continued:

General Government, continued:

Hall and Grounds:

Personnel	1,533
Fringe benefits	142
Supplies	381
Contracted services	4,186
Utilities	4,638
Repairs and maintenance	1,229
	<hr/>
	12,109

Attorney:

Contracted services	<hr/>
	11,274

Total general government	<hr/>
	110,989

Public Safety:

Police:

Personnel	113,851
Fringe benefits	28,579
Supplies	1,281
Telephone	2,348
Transportation	5,740
Registration/dues/training	1,569
Insurance	2,503
Repairs and maintenance	2,360
Other	356
	<hr/>
	158,587

Building Inspection:

Contracted services	<hr/>
	2,738

Total public safety	<hr/>
	161,325

Public Works:

Department of Public Works:

Personnel	51,008
Fringe benefits	23,915
Supplies	14,600
Telephone	1,309
Transportation	7,725
Registration/dues/training	120
Insurance	856
Utilities	5,054
Repairs and maintenance	7,700
Other	426
	<hr/>
	112,713

VILLAGE OF NORTH BRANCH

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended February 29, 2008

Expenditures, continued:

Public Works, continued:

Street Lighting:

Utilities	24,591
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Total public works	137,304
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Community and Economic Development:

Planning:

Personnel	1,790
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Fringe benefits	152
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Transportation	14
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Registration/dues/training	50
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Printing and publications	157
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2,163

Recreation and Culture:

Parks and Recreation:

Personnel	1,513
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Fringe benefits	708
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Insurance	44
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Repairs and maintenance	655
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2,920

Other:

Insurance	24,071
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Tax tribunal refunds ordered	1,305
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25,376

Capital Outlay:

General government	1,343
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Public safety	577
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Public works	715
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2,635

Total expenditures	442,712
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Other Financing Uses:

Transfers to other funds	322
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Total expenditures and other financing uses	\$ 443,034
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VILLAGE OF NORTH BRANCH

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

February 29, 2008

	<u>Special Revenue Funds</u>		
	<u>Museum Fund</u>	<u>Garbage Collection Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets:			
Cash and cash equivalents	\$ 14,510	\$ 24,367	\$ 38,877
Accounts receivable	-	14,838	14,838
Accrued interest receivable	47	-	47
	<u>\$ 14,557</u>	<u>\$ 39,205</u>	<u>\$ 53,762</u>
Total assets			
	<u>\$ 14,557</u>	<u>\$ 39,205</u>	<u>\$ 53,762</u>
Fund Balances:			
Fund balances:			
Unreserved:			
Special revenue funds	<u>14,557</u>	<u>39,205</u>	<u>53,762</u>
Total fund balances	<u>\$ 14,557</u>	<u>\$ 39,205</u>	<u>\$ 53,762</u>

VILLAGE OF NORTH BRANCH

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES Year Ended February 29, 2008

	<u>Special Revenue Funds</u>		
	<u>Museum Fund</u>	<u>Garbage Collection Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:			
Contributions from other units	\$ 2,000	\$ -	\$ 2,000
Charges for services	-	61,302	61,302
Interest and rents	601	854	1,455
Other revenue	77	-	77
Total revenues	<u>2,678</u>	<u>62,156</u>	<u>64,834</u>
Expenditures:			
Current			
Public works	-	55,378	55,378
Recreation and culture	928	-	928
Total expenditures	<u>928</u>	<u>55,378</u>	<u>56,306</u>
Excess (deficiency) of revenues over expenditures	<u>1,750</u>	<u>6,778</u>	<u>8,528</u>
Other financing sources:			
Transfers in from other funds	322	-	322
Total other financing sources	<u>322</u>	<u>-</u>	<u>322</u>
Net change in fund balances	2,072	6,778	8,850
Fund balances, beginning of year	<u>12,485</u>	<u>32,427</u>	<u>44,912</u>
Fund balances, end of year	<u>\$ 14,557</u>	<u>\$ 39,205</u>	<u>\$ 53,762</u>

VILLAGE OF NORTH BRANCH

COMPONENT UNIT

BALANCE SHEET

February 29, 2008

	<i><u>Downtown Development Authority</u></i>
Assets:	
Cash and cash equivalents	\$ 156,477
Taxes receivable	<u>30,135</u>
Total assets	<u><u>\$ 186,612</u></u>
Fund Balance:	
Unreserved	<u>186,612</u>
Total fund balance	<u><u>\$ 186,612</u></u>

VILLAGE OF NORTH BRANCH

COMPONENT UNIT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE

Year Ended February 29, 2008

	<i><u>Downtown Development Authority</u></i>
Revenues:	
Property taxes	\$ 110,269
Interest and rents	<u>4,166</u>
Total revenues	<u>114,435</u>
Expenditures:	
Current	
Community and economic development	<u>76,481</u>
Total expenditures	<u>76,481</u>
Net change in fund balance	37,954
Fund balance, beginning of year	<u>148,658</u>
Fund balance, end of year	<u><u>\$ 186,612</u></u>

VILLAGE OF NORTH BRANCH

FIDUCIARY FUND – AGENCY FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Year Ended February 29, 2008

	<u>March 1,</u> <u>2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>February 29,</u> <u>2008</u>
<u>Payroll Fund</u>				
Assets:				
Cash and cash equivalents	<u>\$ 22,233</u>	<u>\$ 380,167</u>	<u>\$ 372,778</u>	<u>\$ 29,622</u>
Liabilities:				
Accounts payable	<u>\$ 22,233</u>	<u>\$ 380,167</u>	<u>\$ 372,778</u>	<u>\$ 29,622</u>

VILLAGE OF NORTH BRANCH

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

February 29, 2008

1995 Lapeer County Water System Bonds

Issue dated April 1, 1995 in the amount of	\$	660,000
Less: Principal paid in prior years		(180,000)
Principal paid in current year		<u>(25,000)</u>
Balance payable at February 29, 2008	\$	<u>455,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due May 1</i>	<i>Interest due November 1</i>	<i>Principal due November 1</i>	<i>Total Annual Requirement</i>
2009	5.55%	\$ 13,602	\$ 13,603	\$ 25,000	\$ 52,205
2010	5.70%	12,909	12,909	25,000	50,818
2011	5.80%	12,196	12,196	30,000	54,392
2012	5.90%	11,326	11,326	35,000	57,652
2013	6.00%	10,294	10,294	35,000	55,588
2014	6.00%	9,244	9,244	35,000	53,488
2015	6.00%	8,194	8,194	40,000	56,388
2016	6.05%	6,994	6,994	40,000	53,988
2017	6.05%	5,784	5,784	45,000	56,568
2018	6.10%	4,422	4,423	45,000	53,845
2019	6.10%	3,050	3,050	50,000	56,100
2020	6.10%	<u>1,525</u>	<u>1,525</u>	<u>50,000</u>	<u>53,050</u>
		<u>\$ 99,540</u>	<u>\$ 99,542</u>	<u>\$ 455,000</u>	<u>\$ 654,082</u>

VILLAGE OF NORTH BRANCH

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

February 29, 2008

2002 Water Supply System Revenue Bonds

Issue dated September 26, 2002 in the amount of	\$	1,144,592
Less: Principal paid in prior years		(140,000)
Principal paid in current year		<u>(45,000)</u>
Balance payable at February 29, 2008	\$	<u>959,592</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due April 1</i>	<i>Interest due October 1</i>	<i>Principal due October 1</i>	<i>Total Annual Requirement</i>
2009	2.50%	\$ 11,995	\$ 11,995	\$ 45,000	\$ 68,990
2010	2.50%	11,432	11,432	50,000	72,864
2011	2.50%	10,807	10,807	50,000	71,614
2012	2.50%	10,182	10,182	50,000	70,364
2013	2.50%	9,557	9,557	55,000	74,114
2014	2.50%	8,870	8,870	60,000	77,740
2015	2.50%	8,120	8,120	60,000	76,240
2016	2.50%	7,370	7,370	60,000	74,740
2017	2.50%	6,620	6,620	60,000	73,240
2018	2.50%	5,870	5,870	60,000	71,740
2019	2.50%	5,120	5,120	65,000	75,240
2020	2.50%	4,307	4,307	65,000	73,614
2021	2.50%	3,495	3,495	65,000	71,990
2022	2.50%	2,682	2,682	70,000	75,364
2023	2.50%	1,807	1,807	70,000	73,614
2024	2.50%	<u>932</u>	<u>932</u>	<u>74,592</u>	<u>76,456</u>
		\$ 109,166	\$ 109,166	\$ 959,592	\$ 1,177,924



INTERNAL CONTROL COMMUNICATIONS

To The Village Council
Village of North Branch

In planning and performing our audit of the financial statements of the Village of North Branch as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of North Branch's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined above. Deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above, follow:

Recording, Processing and Summarizing Accounting Data

Criteria: All governments are required to have in place internal controls over recording, processing, summarizing accounting data and preparing financial statements. SAS No. 112 requires us to communicate with you about this.

Condition: As in the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the recording, processing, summarizing accounting data and preparing financial statements as part of its external financial reporting process. Accordingly, the government has placed reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: This condition was caused by the government's decision that it is more cost effective to have external auditors recommend the necessary adjusting journal entries to its general ledger and prepare the financial statements than to incur the time and expense for the government to perform these tasks internally.

Effect: As a result of this condition, the government lacks internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and instead relied, in part, on its external auditors for assistance with this task.

**View of
Responsible
Officials:**

The government has evaluated the cost vs. benefit of establishing internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and determined that it is in the best interests of the government to rely on its external auditors to recommend the necessary adjustments and preparation of the financial statements.

This communication is intended solely for the information and use of management, Village Council, and others within the Municipality, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

April 18, 2008